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ABSTRACT

The new Federal revenue sharing proposal has been received with diverse reactions by politicians, economists, and citizens. The program is divided into $5 billion annually in general revenue sharing and $11 billion annually in special revenue sharing. Proposed alternatives to revenue sharing include (1) reduction of Federal taxes, thereby increasing the potential of State and local governments to increase taxes or to explore new tax sources; (2) a public service jobs program; (3) expansion and proliferation of present Federal aid programs; (4) Federal assumption of all costs of specific jointly financed programs; (5) a shift to block grants by the Federal Government as implied in special revenue sharing; (6) tax credits allowing taxpayers to subtract from their Federal income taxes a certain portion of their State and local taxes, and (7) coordination of State and Federal tax systems. (Author/LLR)

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FEDERAL REVENUE SHARING AND POLITICAL ALTERNATIVES

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Dr. Phillips has presented a thoughtful and factual analysis of Federal revenue sharing (the 1971 version as contrasted with the 1969 proposal), the pros and cons for public schools, Federal involvement in education, and some predictions concerning the Federal role.

My remarks will be directed toward the alternatives to Federal revenue sharing despite a personal feeling that as the Red Queen observed in Through the Looking Glass -- "it takes all the running you can do to stay in the same place" - if you want to go anywhere you must run twice as fast as that.

Revenue Sharing 1972

A new American Revolution - strengthen state and local government -- a reverse flow, with funds and function flowing back to states and localities - sharing nonexistent revenues - averting a breakdown of state and local government -- a musclebound Federal government assisting impotent state and local governments - the educational cop-out of the century. The above comments are only a sample of the claims and counterclaims which have followed President Nixon's state of the union proposal for Federal revenue sharing.

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The above comments range from administration claims through the analyses of the New Republic, Fortune, the U. S. News and World Report, the press services, the expected reaction of the opposition (who in some instances favor revenue-sharing, but not Mr. Nixon's revenue sharing) to the "cop-out" charge of the education committee of the AFL-CIO. The Gallup poll of January 9th and 10th suggests that politically the administration has struck a gold mine. Favorable reaction to "general" revenue sharing was expressed by 77 percent, ranging from 73 percent among independent voters, 77 percent among Democrats, to 81 percent among Republicans. Opposition was expressed by only 14 percent. Dr. Phillips is correct when he senses a ground swell in favor of some type of Federal revenue sharing and some consolidation of at least 105 categorical aid programs into block grant programs.

The Fiscal Climate

Let us consider the fiscal climate in which revenue sharing was proposed. Federal grants at an estimated $25 billion in fiscal 1970 were providing 18 percent of state and local expenditures. The income elasticity of the Federal taxing apparatus is highly progressive yielding 1.5 times the increase shown by the Gross National Product. State and local revenues increase by a one-to-one ratio with the G. N. P. The resulting revenue crunch facing state and local governments in an inflationary period is frightening.

Legislative leaders of 49 states have endorsed a constitutional convention on revenue sharing. Mayors of 15 cities recently threatened to lobby against revenue sharing if cuts in present aid programs are involved. At least seven of the Big Nine states face major revenue-raising needs this year. Illinois imposed an income tax in 1969, California faces severe retrenchment in existing programs. Florida, New Jersey, Michigan, New York and Texas face serious deficits. Low taxes in Ohio and absence of income taxes in New Jersey and Pennsylvania add to the problem.

Similar budget problems face all states and cities. The problems may not be as large but are nevertheless just as severe. Welfare and Medicaid costs are outrunning revenue estimates. The bills for our social reforms of the 1960's are coming due and the Federal--state-and local revenue raising apparatus will be severely challenged at all levels.

The Proposed Program

The revenue sharing program breaks down into two distinct programs.

1. $5 billion annually in "general" revenue sharing.

2. $11 billion annually in "special" revenue sharing, which is a new name for consolidation and decentralization of existing programs. Theoretically a "save harmless" guarantee is being considered which would produce for the states and cities funds which are at least equivalent to present grants.

"Special revenue sharing" is in reality a proposal to convert about $10 billion in existing categorical grants to a system of block grants and to add a billion dollars in new money. All of the fury of the proponents of existing Federal categorical aid programs and of the states and localities which are the recipients of these funds may be directed toward maintaining the status quo.

Let us examine the proposals for "general" revenue sharing. The source of funds could be Federal taxation or might be increased borrowing. Since the so-called full employment budget is based on an economy that "might have been" there is a distinct possibility that $5 billion in deficit spending might result in increased indebtedness. For this reason the term "revenue sharing" is more precise than the familiar concept of "tax sharing." As Representative Wilbur Mills has pointed out - It is difficult to share revenue which the Federal government does not have.

The ultimate base of Federal revenues is the economy of the nation. Many of the states and large cities which have the paramount fiscal problems are high income areas which provide a major share of Federal revenues. If the revenues to be shared, for example, were derived from personal income payments we find that proposed sharing would be more than offset by higher income taxes in the high income states.

Alternatives

Are there viable alternatives to general Federal revenue sharing? Several are being proposed by economists and Congressmen.

1. As William Buckley says, an obvious solution is to simply reduce Federal taxes, thereby increasing the potential of state and local governments to increase taxes or to explore use of new tax sources. Beleaguered state legislators will take a dim view of this proposal. In fact, this is exactly what they do not want to do.

2. A public service jobs program was proposed in 1969, but fell by the wayside.

3. Expansion and proliferation of the present complex system of Federal categorical aids is a distinct possibility. Such an expansion in funds (approximately 10%) is actually incorporated in the "special revenue sharing" proposal with the hope that some order will be obtained in the present chaotic programs.

4. Federal assumption of all of the costs of specific jointly financed programs has been advised by the Advisory Commission on Intergovernmental Relations. For example, the fiscal impact of Federal assumption of the $8 billion state and local costs of welfare and Medicaid would be of major assistance to state and local budgets in hard-pressed areas and has strong support.

5. A massive shift to block grants by the Federal government as inferred in the so-called "special" revenue sharing. Principal activities involved would be the broad areas of education, law enforcement, urban and rural development, manpower, and transportation.

6. Tax credits could permit a taxpayer to subtract from his Federal income tax bill a specified portion of his state and local tax payments. The tax relief to the taxpayer would be certain and immediate. The wealthier states would gain the most.

7. Coordination of state and Federal tax systems. For example, a state surtax on the Federal income tax, collected by the Internal Revenue Service and forwarded to the states is a feasible collection system, although allocation might be a sticky problem.

Allocation Formulas

Much of the discussion about the two "revenue sharing" proposals has resulted from uncertainty concerning allocation.

1. Will the state and local programs now existing be retained or will many of them be phased out? This is of major interest to educators.

2. Will the proposed formula be 70% state and 30% city or 52% - 48%? Where does this leave education?

3. Will the various alternatives to Federal revenue sharing result in an impasse which will result in no action?

4. Will the "special" revenue sharing meet with some success and the new $5 billion general revenue sharing fail?

As Dr. Phillips has suggested and as many commentators have reported, the proposals for revenue sharing do present a new bold approach. The situation being what it is, a healthy discussion is almost certain to develop which will influence the direction of Federal aid and the coordination of Federal, state, and local tax systems during the decade ahead.